



THE ASSOCIATION of
CORPORATE CREDIT UNIONS

www.theaccu.org

VIA E-MAIL: regcomments@ncua.gov

March 21, 2006

Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Sixth EGRPRA Notice

Dear Ms. Rupp:

The Association of Corporate Credit Unions (ACCU) is pleased to provide a response to the NCUA's request for comments regarding the reduction of regulatory burden. By way of background, ACCU is the primary trade association for the country's corporate credit unions (Corporates) located around the country. Corporates provide liquidity, investment products, payments settlement and other financial services to the nation's federal and state-chartered credit unions.

We would like to provide comments regarding capital modernization for corporate credit unions. The capital adequacy of a financial institution is commonly measured by relating the institution's capital to the amount of credit risk it has (assuming the use of a risk-weighting methodology). The risk-weighting methodology reflects the fact that certain assets (such as U.S. Treasury securities) have lower credit risk other assets.

With the advent the original Basel Accord in 1988, financial institution regulators have generally adopted risk-based capital requirements. Regulators have become more experienced with risk-based capital requirements since then. Refinements to the original Basel Accord (often referred to as Basel II) have been debated in recent years. Even with these changes, the premise of measuring capital adequacy based primarily on the credit risk of a financial institution remains intact.

Unlike other financial institutions, credit unions in the United States (corporate or natural person) do not currently have risk-based capital requirements. The NCUA has recently considered risk-based capital requirements for natural person credit unions. Corporates have conducted a study to evaluate the merits of a risk-based capital system and the results of the study support the use of risk-based capital to strengthen the measurement of capital adequacy at Corporates. The ACCU would respectfully request that the agency begin a dialogue with ACCU on capital issues.

There are currently 29 retail Corporates and one wholesale Corporate (US Central). Collectively, these organizations are referred to as the Corporate Network.

Corporates primarily provide lending, depository and correspondent financial services to natural person credit unions. Unlike other financial institutions, loan losses at Corporates have historically been non-existent (due to their practice of lending only to credit unions and their affiliates). A high percentage of Corporate assets are invested in high quality investment instruments (predominantly with credit ratings of 'AAA', the highest rating available). Corporate balance sheets are very liquid in comparison to other financial institutions, with the majority of Corporate assets maturing within a three-year period.

Credit rating agencies have historically viewed Corporates as financially strong entities, as they have recognized the high asset quality of the Corporate Network. In fact, U.S. Central Federal Credit Union (US Central) is one of the few entities that have a long-term rating of 'AAA' (a rating that has been held since it was initially rated in the early 1990s). Some other (mostly larger) Corporates receive independent credit ratings also. These Corporates are highly rated. In general, the Corporates that have chosen not to go through the process of obtaining an independent credit rating have similar capital levels, asset quality and operations as the Corporates with credit ratings.

The ACCU's basic objective in evaluating risk-based and other capital measurements is to establish an appropriate capital system that insures the continued safety and soundness of Corporates. Secondary objectives include (1) risk-based information for Corporate members and credit rating agencies to use in their on-going reviews of Corporates, and (2) comparability of Corporates to other financial institutions.

To establish an appropriate risk-based capital framework, Corporates looked to draw upon the proven methodology of the original Basel Accord and the proposed Basel II. The ACCU hired a risk-based capital expert (Ernst & Young) to study the matter. Ernst & Young conducted an independent financial and operational analysis of Corporates and applied the risk-based capital principles of the Basel Accord and Basel II to them. This analysis culminated in their document titled "Risk-Based Capital in the Corporate Credit Union Industry: A Principles Based Approach." This document was delivered to the NCUA recently.

Using the Ernst & Young study and US banking regulations as a base, a group of Corporate representatives vetted and ultimately recommended risk-weighting standards for Corporates specifically. The group's approach was to align the risk-weightings of Corporate assets with the Basel principles or US banking regulations unless there was a unique aspect related to Corporates that should be recognized. In the end, the vast majority of risk-weightings are identical to existing or proposed banking regulations. This presentation includes the rationale for the few items that are risk-weighted differently than existing or proposed banking regulations.

Corporates are well capitalized, particularly on a risk-based capital basis. This is reflected in credit rating agencies' view of Corporates. A new capital regulation based on the proven Basel principles would strengthen the existing regulation and align it more closely with capital regulations for other financial institutions.

ACCU and its member corporates are interested in the NCUA's view on the framework outlined above and would like to begin discussions with the agency on capital modernization. Thank you for allowing ACCU to respond to this request for comment.

Very truly yours,

Michael F. Canning, Esq., CAE
Executive Director